



Post *eBay* Damages and Injunctions

eBay's Impact on Patent Holding Companies

Robert A. Matthews, Jr. - Latimer, Mayberry & Matthews IP Law, LLP

robert.matthews@latimerIP.com

434-525-1141

eBay v. MercExchange, 547 U.S. 388 (May 15, 2006)

Pre-*eBay* - Federal Circuit followed a “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”

SCT rejected the Federal Circuit’s “general rule”

- A patent’s statutory right to exclude does **not** mandate an injunction
- Like copyright, **no automatic** issuance of an injunction once patent infringement is found
- Instead, injunctive relief for patent infringement may issue **only** in accordance with the “**traditional principles of equity**” in the district court’s exercise of discretion
- **Broad categorical rules** or classifications used **to deny** or **grant** an injunction are generally **improper**.
- While history shows that injunctions were often granted to patent holders, and those examples may still be followed (Roberts concurring), courts must look at today’s cases to see if they match the historical cases (Kennedy concurring)

Four Factors to Obtain an Injunction

Patentee seeking a permanent injunction, must show

1. That it has suffered an irreparable injury.
2. That [alternative] remedies available at law, such as monetary damages, are inadequate to compensate for that injury.
3. That, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted.
4. That the public interest would not be disserved by a permanent injunction.

Death of the Presumption of Irreparable Harm?

“It remains an **open question** ‘whether there remains a rebuttable presumption of irreparable harm following *eBay*.’” *Broadcom*, 543 F.3d 683, 702 (Fed. Cir. 2008) (quoting *Amado*, 517 F.3d 1353, 1359 n.1 (Fed. Cir. 2008))

Presumptions of irreparable harm are “**contrary to traditional equitable principles.**” *Amoco Prod.*, 480 U.S. 531, 544-45 (1987)

“**Possibility**” of irreparable harm, when strong likelihood of success shown is **too lenient.** *Winter v. Nat’l Resources Defense Council*, 129 S. Ct. 365, 375-76 (2008)

Other recent SCT cases casting further doubt on continued use of a presumption of irreparable harm:

“When considering success on the merits and irreparable harm, courts **cannot dispense** with the required showing of one simply because there is a strong likelihood of the other.” *Nken v. Holder*, 2009 WL 1065976, *14 (SCT Apr. 21, 2009) (Kennedy, J., *concurring*) (stay case)

SCT disfavors using “mandatory presumptions and rigid rules rather than case-specific application of judgment.” *Shinseki v. Sanders*, 2009 WL 1045952, *8 (SCT Apr. 21, 2009) (**reversing CAFC** on a veterans issue)

3 General Forms of Patent Holding Companies

Licensing Only PHC (LO-PHC)

- Acquires patents for licensing, usually does not create the patented technology

Corporate Related PHC (Sub-PHC)

- Administratively maintains, enforces and licenses patents covering technology developed by a related corporation (usually a manufacturer/seller)
- May give grant-back nonexclusive license to parent
 - likely destroys ability to recover *parent's* lost profits (*Poly Am.*; *Mars*),
 - potential recovery under an “inexorably flow” or “lost royalties” theory

Research Entity (RE-PHC)

- Commercial or educational R&D entity that patents the results of its R&D and uses the licensing revenues to fund further R&D

Permanent Injunctions

***eBay* – Patentee must prove four factors to obtain a permanent injunction including:**

- It will suffer irreparable harm w/o injunction
- Money damages are inadequate to make it whole

Post *eBay*, irreparable harm often shown where the patentee directly competes with the infringer

- Loss of market share, price erosion, harm to reputation and loss of customer good will
- post *eBay* – at least 40 reported cases granting permanent injunctions where the patentee directly competed with the infringer

PHCs do not compete in the market with infringers and normally want to nonexclusively license; this makes it difficult for a PHC to prove irreparable harm

Ways for a PHC to Show Irreparable Harm

Inability to establish a licensing program due to infringement can show irreparable harm – *Roper*, 757 F.2d at 1273.

- *Telcordia Tech. v. Cisco Sys.*, 2009 WL 32717, *14-*15 (D. Del. Jan. 6, 2009) (denying injunction: RE-PHC failed to prove irreparable harm since it had been able to license its patents and was not directly competing with the infringer)

RE-PHC may be able to show harm to its reputation

- *CSIRO*, 492 F.Supp.2d at 604-07 (E.D. Tex). *related appeal*, 542 F.3d 1363 (granting injunction since infringement confiscated “core technology,” harmed patentee’s reputation as a technology leader, caused lost research opportunities) *But see Telcordia Tech.* and *Hynix*

PHC must personally suffer irreparable harm; can’t rely on harm suffered by non-joined licensees – *Voda*, 536 F.3d at 1329.

- Sub-PHC with manufacturing parent may be able to join the parent as the equitable owner of the patent (but just for the equitable claims) and rely on parent’s irreparable harm – See *Arachnid*, 939 F.2d at 1580.

Other Circumstances Showing Irreparable Harm

Insolvency of infringer

Sundance, 2007 WL 3053662, *1 (E.D. Mich. Oct. 19, 2007), *rev'd on other grounds*, 550 F.3d 1356 (Fed. Cir. 2008) (originally denied injunction since patentee failed to show harm to its licensing program, granted injunction 10 months later in view of changed circumstances of infringer's insolvency)

Patentee's desire to sell, but not license, patent

Joyal Prods., 2009 WL 512156, *11 (D.N.J. Feb. 27, 2009) (patentee ceased practicing invention due to the infringement, did not want to license, just wanted to sell the patent)

Willingness to License

Willingness to license *may* show that money damages are adequate

– *High Tech*, 49 F.3d at 1557

No categorical rule that willingness to license always defeats ability to show irreparable harm

- *eBay*, 547 U.S. at 393 - those who chose to license rather than market, “such as university researchers or self-made inventors,” have the opportunity to try to prove they can “satisfy the traditional four-factor test”
- *Acumed*, 551 F.3d at 1328 - “A plaintiff’s willingness to license its patent is **not sufficient** *per se* to establish lack of irreparable harm if **a new infringer** were licensed.” (note patentee practiced invention)
- *Kowalski*, 2009 WL 856006, *1 (D. Hawai’i Mar. 30, 2009) (granting injunction to “self-made inventor” based on violation of right to exclude where individual licensed patents) (individual was also CEO of a competitor to the infringer)

3 years since eBay no reported permanent injunctions to a LO-PHC.

“...BarTex may still be entitled to a permanent injunction, even though it does not practice its patent. . . . **The right to exclude, even for a non-practicing entity, may be the only way to fully vindicate the patentee's ownership in the patent.**”

BarTex Research, 2009 WL 1164567, *4 (E.D. Tex. Apr. 20, 2009) (Love, M.J.) (denying stay pending reexam)

Leverage for Licensing Talks

Courts may be hostile to a PHC's attempt to secure an injunction to gain undue leverage in licensing negotiations

- Justice Kennedy's concurring opinion in *eBay* singles out LO-PHCs and states:
 - An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction ... can be **employed as a bargaining tool to charge exorbitant fees** ... to practice the patent. When the patented invention **is but a small component** of the product the companies seek to produce and the threat of an injunction is **employed simply for undue leverage** in negotiations, legal **damages may well be sufficient** to compensate for the infringement and **an injunction may not serve the public interest**. (547 U.S. at 396)
- E.g. *Hynix Semiconductor*, 2009 WL 440473, *29 (N.D. Cal. Feb. 23, 2009) (denying injunction where court had a "firm conviction" RE-PHC was seeking the injunction as a "**holdup**" to enhance its negotiating power with the infringer)

Ongoing Royalty in Lieu of Injunction

“Ongoing royalty for patent infringement in lieu of an injunction may be appropriate” – *Paice*, 504 F.3d at 1314-15

PHCs may lose negotiating leverage if court sets the ongoing royalty rate in first instance

- *Paice* (Rader concurring) – parties should have first opportunity to negotiate the ongoing royalty rate before a court sets a rate (DCT sets ORR after parties failed to agree, 2009 WL 1035218, *3-*9 (E.D. Tex. Apr. 17, 2009))
- *Telcordia Tech*, 2009 WL 32717, *15 (ordering parties to negotiate ongoing royalty rate)
- *Ariba* and *Cummins* (E.D. Tex) - requiring jury to determine an on-going royalty rate (ORR) for future infringement before the court ruled on whether it would grant or deny a permanent injunction

“Sunset” provision whereby infringer given a period of time to develop a noninfringing redesign before a permanent injunction takes effect - *Broadcom*, 543 F.3d at 704

Preliminary Injunctions

Challenges for a PHC to show irreparable harm for a permanent injunction apply to obtaining a preliminary injunction

Dictum in *Abbott Labs* may further tip the scales against a LO-PHC

- Precedent illustrates that when the **patentee is simply interested in obtaining licenses**, without itself engaging in commerce, **equity may add weight to permit infringing activity to continue during litigation**, on the premise that the patentee is readily made whole if infringement is found. . . . At the preliminary injunction stage, the legal and equitable factors may be of different weight when the patentee is itself engaged in commerce, as contrasted with a patentee that is seeking to license its patent to others. (544 F.3d at 1362)

Can a PHC Seek an Exclusion Order at the ITC?

Domestic Industry - an industry in the U.S. must exist or “is in the process of being established.” 19 U.S.C. § 1337(a)(2)

An industry exists where there has been

- (A) significant investment in plant and equipment;
- (B) significant employment of labor or capital; or
- (C) **substantial investment** in its exploitation, including engineering, research and development, or **licensing**. 19 U.S.C. § 1337(a)(3)

A U.S. Sub-PHC or RE-PHC may be able show a domestic industry

A developing issue for LO-PHCs